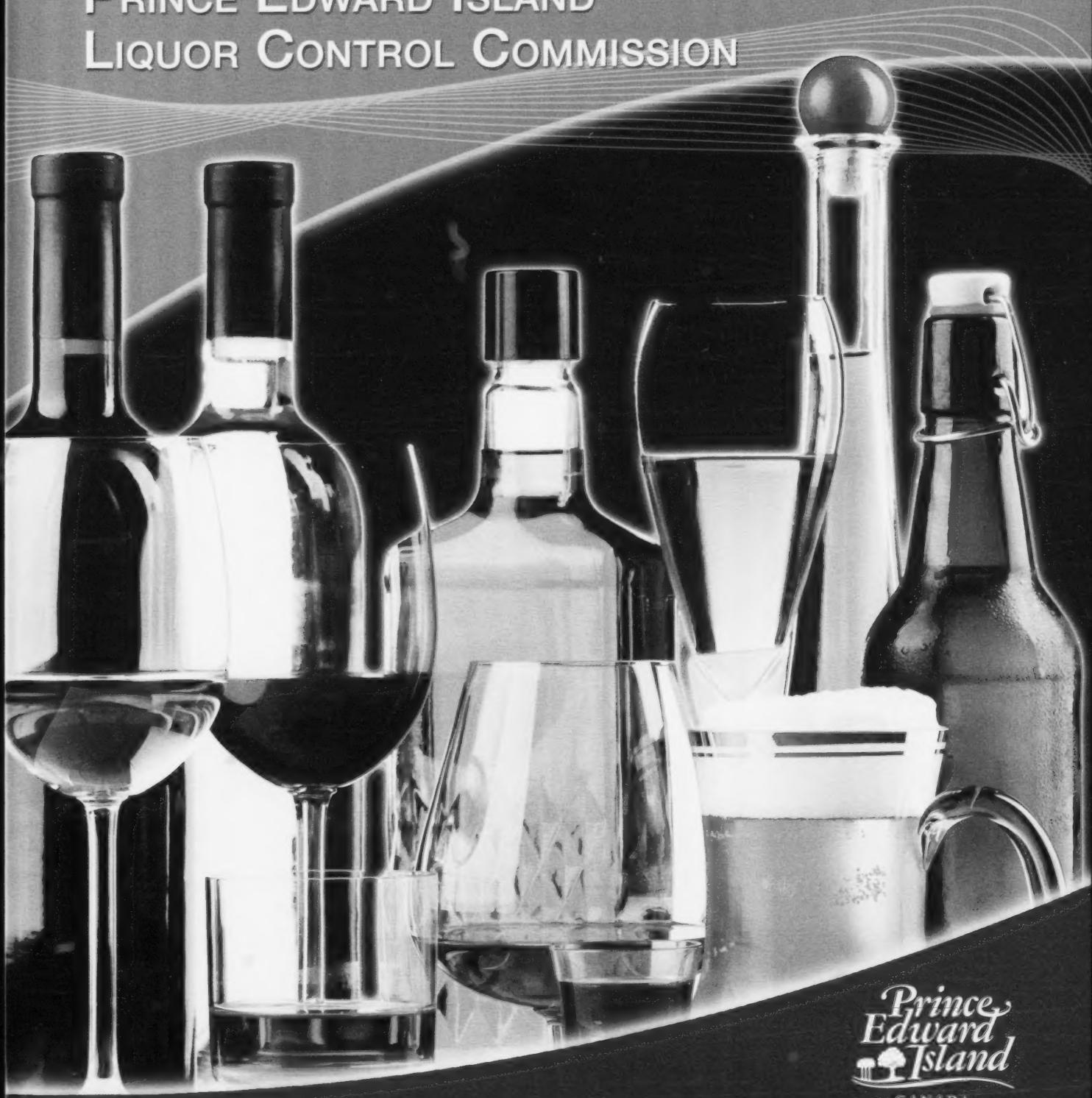


2013 ANNUAL REPORT PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION



Moderation is always in good taste.

Prince
Edward
Island
CANADA
Liquor Control
Commission

Prince Edward Island
Liquor Control Commission
65th Annual Report

For the Year Ended
March 31, 2013

Corporate Vision

The Prince Edward Island Liquor Control Commission will be recognized as a truly superior retailer in Prince Edward Island. We will achieve this through quality products, modern technology and increased services. We will be the provincial leader in relationships with our partners, customers and suppliers. We will always strive for the best possible value for our customers, staff and other stakeholders.

Mission Statement

The PEI Liquor Control Commission regulates the sale of beverage alcohol under the authority of the *PEI Liquor Control Act*. It manages the distribution of alcohol by:

- operating in a socially responsible manner;
- achieving the revenue goals of the Provincial Government;
- providing suppliers with controlled access to the marketplace on a fair basis from modern, attractive venues;
- encouraging responsibility and moderation in the consumption of beverage alcohol; and
- providing its employees with equality of opportunity and increased training programs that assist in the individual's personal development and in the commission's overall customer service strategy.

Corporate Values

- **Moderation** – We promote responsible use as a way of life.
- **Quality Service** – We take pride in the quality of our work. We strive for excellence in caring for our customers, suppliers and one another.
- **Continuous Improvement** – As a retailer, we welcome change. We are committed to continuous improvement to all of our services.
- **Integrity and Fairness** – We take responsibility and are fully accountable for our actions, decisions and behaviour. We meet our commitments and obligations to co-workers, customers and business partners. We are open, honest and fair.
- **Importance of People** – We are committed to fostering a positive workplace that builds teamwork, mutual respect and encourages individual development.
- **Focus on Results** – We are committed to getting the job done and improving our productivity levels.

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Message from the Minister

The Honourable H. Frank Lewis
Lieutenant Governor of Prince Edward Island
PO Box 2000
Charlottetown, PE C1A 7N8



May It Please Your Honour:

Pursuant to the *PEI Liquor Control Act* and as Minister designate, it is my privilege to submit the 65th Annual Report of the Prince Edward Island Liquor Control Commission.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Robert Henderson".

Robert Henderson
Minister of Tourism and Culture
Minister Responsible for the PEI Liquor Control Commission

Message from the Chairman

The Honourable Robert Henderson
Minister of Tourism and Culture
Minister Responsible for the PEI Liquor Control Commission
PO Box 2000
Charlottetown, PE C1A 7N8



Sir:

In compliance with Section 87(3) of the *PEI Liquor Control Act*, I have the honour to submit the 65th Annual Report of the Prince Edward Island Liquor Control Commission covering the fiscal year April 1, 2012 to March 31, 2013.

Respectfully submitted,

A handwritten signature in cursive ink, appearing to read "Hector MacLeod".

Hector MacLeod
Chairman

Message from the CEO

Mr. Hector MacLeod, Chairman
PEI Liquor Control Commission
PO Box 967
Charlottetown, PE C1A 7M4



Dear Mr. MacLeod:

It is my pleasure to report that the PEI Liquor Control Commission (PEILCC) has surpassed its previous year's transfer to government for the 16th consecutive year. The PEILCC had returns to the Government of Prince Edward Island of over \$42.7 million including Provincial Sales Tax of \$7.5 million for the fiscal year ending March 31, 2013.

This past fiscal year was very successful for the PEILCC with gross receipts increasing by more than \$2.6 million to over \$97 million. The PEILCC attributes this success to the foresight, dedication and determination of both our staff and Board of Commissioners.

I want to thank all PEILCC employees for their contributions to our accomplishment this year. Thank you also to the ongoing commitment and leadership of the Executive Management team and to the continued support of the PEILCC Board.

We have built a strong team at the PEILCC and I look forward to our future work together.

Yours truly,

A handwritten signature in black ink, appearing to read "B. MacMillan".

Brooke MacMillan
Chief Executive Officer

Corporate Governance

Corporate governance describes the process and structure for overseeing the direction and management of a crown corporation so that it effectively fulfills its mandate. This involves both its public policy and commercial objectives. It defines who is responsible for what, and how to ensure accomplishment and accountability.



Liquor Control Commission Board

Standing from left: Bill MacLellan, Member; James Gormley, Q.C., Legal Counsel; Robert Lord, Member; and Brooke MacMillan, Chief Executive Officer.
Seated from left: Pauline Wood, Vice-Chair; Hector MacLeod, Chair; and Lisa MacKinnon, Secretary. Missing from photo: John Bell, Member.

Mandate of Commission Board

The mandate of the board is to supervise the business affairs of the commission. Its most important responsibilities are:

- ensuring that the PEILCC provides high-quality service to the public
- developing and approving the strategic plan and monitoring management's success in meeting the strategic plan
- approving annual financial plans
- assessing and managing business risks
- ensuring that the PEILCC performs its regulatory role in a fair and impartial manner.

Accountability to Government and Public

The PEILCC is held accountable by the Government and people of PEI in a number of ways, including:

- the Annual Report, tabled in the Provincial Legislature and available for all Islanders to review, either in print or online at www.peilcc.ca
- annual audits of the PEILCC's financial statements by the Auditor General
- public access to records under the *Freedom of Information and Protection of Privacy Act*
- publicly appointed commission members.

Appointment of Members of the Commission

The Lieutenant Governor in Council, through an order-in-council, appoints the members of the commission, establishes the honourariums and designates the chair and vice-chair.

Responsibilities of Commission Members

Each commission member has individual responsibility for corporate governance including:

- acting honestly and in good faith in making decisions with a view to the best interests of the PEILCC and all its stakeholders
- overseeing the management of the business affairs of the PEILCC
- avoiding conflicts of interest
- having adequate knowledge of the PEILCC's business, how it is organized and how it functions
- attending commission meetings and seeking professional advice where necessary
- providing guidance on policy development
- reviewing appeals of listing applications.

Audit Committee

The Audit Committee is elected annually and consists of three commission members in addition to the chairman and the CEO as ex-officio. The committee ensures the reliability and accuracy of the PEILCC's financial statements, helps co-ordinate and improve internal control functions, and ensures the PEILCC adheres to sound corporate governance principles.

Strategic Planning Committee

The Strategic Planning Committee is elected annually and consists of three commission members in addition to the chairman and CEO as ex-officio. The purpose of the committee is to review and evaluate the corporate plans and to make any recommendations to the board in relation to those plans that the committee considers appropriate.



Management Team of the PEI Liquor Control Commission

Standing from left: Lynn Duffy, Human Resource Manager;

Andrew MacMillan, Director of Marketing and Retail (acting);

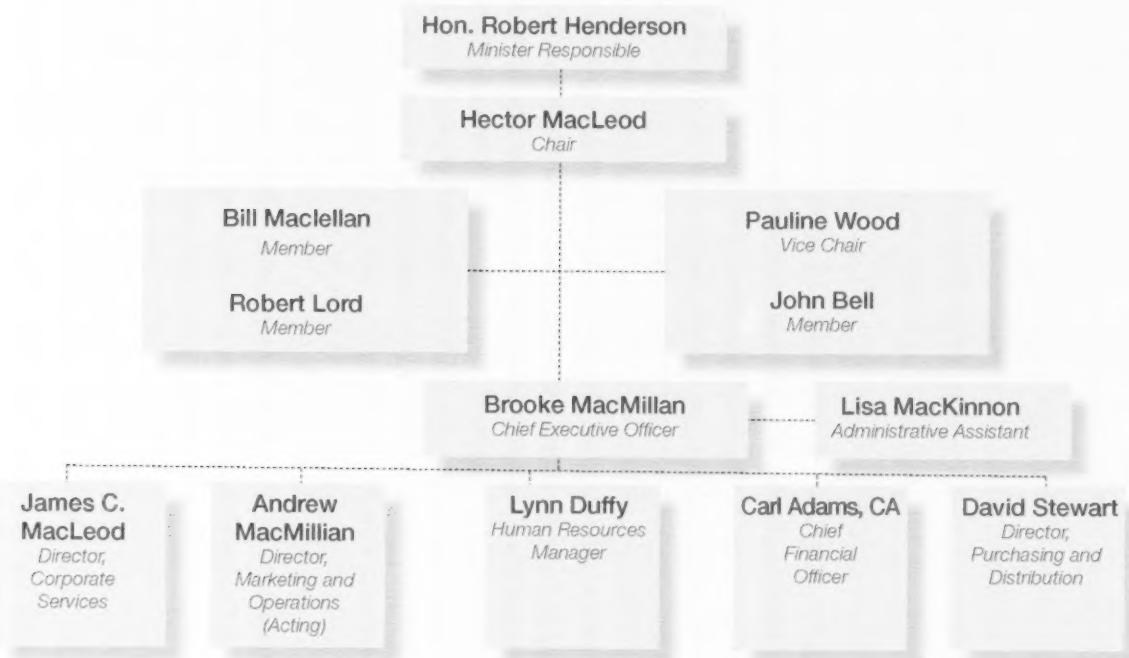
Carl J. Adams, Chief Financial Officer; and

David Stewart, Director of Purchasing and Distribution.

Seated from left: James C. MacLeod, Director of Corporate Services;

and Brooke MacMillan, Chief Executive Officer.

Organizational Chart



Executive Summary

The Prince Edward Island Liquor Control Commission (PEILCC) is a crown corporation responsible for the administration of the *Liquor Control Act* and Regulations, along with the purchase, control and sale of all beverage alcohol in the province.

A five-member Board of Commissioners is responsible for the commission's activities. The chairperson reports to the minister responsible for the PEI Liquor Control Commission.

The mandate under the *Liquor Control Act* has two primary components: regulatory and commercial. The regulatory function responsibilities include licensing and inspecting licensed premises and special permit events, investigating and reporting on all licensee or special permit complaints and determining whether there were infractions of the *Liquor Control Act* and making recommendations to government on amendments to legislation.

On the commercial side, the commission continues to be a major force in the provincial economy with gross receipts in excess of \$97 million, making it one of the largest retail organizations in Prince Edward Island.

In terms of monetary transfers to the Provincial Treasury, this past fiscal year provided the largest transfer to date with more than \$42.7 million including Provincial Sales Tax of \$7.5 million forwarded to the Province.

The commission currently operates 18 corporate retail outlets, as well as a central warehouse and Licensee Distribution Centre located in Charlottetown. The commission has contracted with private interests for the operation of a Liquor Agency store in six locations: Cavendish, East Royalty, Eldon, Kinkora, Morell and Murray Harbour.

A corporate retail outlet in Wood Islands, which had operated seasonally since 2005, has been converted to a Liquor Agency store with a planned opening date in May 2013.

A strategic plan is in place that guides the commission to success in meeting its performance and accountability goals.

The commission focuses on the following five key areas to measure performance:

1. Financial Performance;
2. Customer Service;
3. Business Effectiveness;
4. Public Safety and Social Responsibility; and
5. Workplace Quality and Employee Excellence.

These areas serve as a blueprint for incorporating the Mission Statement into day-to-day activities and establishing strategic goals, the details of which are explained in further detail in this report.

Sommaire

La Régie des alcools de l'Île-du-Prince-Édouard (R.A.Î.P.É.) est une société de la Couronne responsable de l'administration de la *Liquor Control Act* (loi sur le contrôle des alcools) et de ses règlements, ainsi que de l'achat, du contrôle et de la vente de toutes les boissons alcoolisées dans la province.

Un conseil de cinq commissaires est responsable des activités de la Régie. La présidence fait rapport au ministre responsable de la Régie des alcools de l'Île-du-Prince-Édouard.

Le mandat relevant de la *Liquor Control Act* a deux composantes principales, une de réglementation et l'autre commerciale. Les responsabilités réglementaires comprennent l'octroi des licences et l'inspection de les débits de boisson et des événements nécessitant des permis spéciaux, l'enquête et les rapports de plaintes portant sur les détenteurs de licences ou de permis spéciaux, la prise de décisions concernant les infractions à la *Liquor Control Act* et les recommandations au gouvernement au sujet de modifications à la loi.

Du côté commercial, la Régie continue d'être un levier important de l'économie de la province avec des ventes brutes dépassant les 97 millions de dollars, ce qui en fait un des plus importants organismes de vente au détail de l'Île-du-Prince-Édouard.

En termes de transferts monétaires au Trésor provincial, l'Île-du-Prince-Édouard a connu cette année fiscale le plus important transfert de son histoire, soit plus de 42,7

millions de dollars dont 7,5 millions de dollars en taxe de vente provinciale.

À l'heure actuelle, la Régie exploite 18 points de vente au détail ainsi qu'un entrepôt central et un centre de distribution pour les détenteurs de licences situé à Charlottetown. La Régie a passé des contrats avec le secteur privé pour les activités d'un magasin de franchise à Cavendish, East Royalty, Eldon, Kinkora, Morell et Murray Harbour.

Le point de vente de Wood Islands, qui n'était en activité que de façon saisonnière depuis 2005, deviendra un magasin de franchise dont la date d'ouverture est prévue pour mai 2013.

Un plan stratégique est en place pour guider la Régie dans l'atteinte de ses objectifs de performance et d'imputabilité.

La Régie concentre ses efforts sur les cinq domaines principaux suivants afin de mesurer sa performance :

1. la performance financière;
2. le service à la clientèle;
3. l'efficacité des opérations;
4. la sécurité publique et la responsabilité sociale; et
5. la qualité du milieu de travail; l'excellence des employés.

Ces domaines servent de plan directeur à l'intégration de notre mission dans nos activités quotidiennes et à l'établissement de buts stratégiques, dont les détails sont présentés dans le présent rapport.

Operational Overview

2012-2013 Year in Review

The Prince Edward Island Liquor Control Commission's Strategic Plan continued to guide activities through fiscal 2012-2013. Progress on strategic objectives is supported by annual business plans that set priorities for actions to meet objectives and timelines for their completion. The following is an overview of the performance in each of the five strategic objectives

Goal 1 Financial Performance

Goal

To maximize net income within the policy guidelines established by the provincial government.

Objectives

1. Achieve or exceed planned monetary transfer to the Provincial Government.
2. Achieve or exceed net income targets.
3. Increase traffic through liquor stores.

	Actual 2011-2012	Budget 2012-2013	Actual 2012-2013	% of 2012-2013 Budget	Budget 2013-2014
Gross Receipts	\$95,024,732	\$103,700,872	\$97,683,171	94.20%	\$102,403,849
Gross Profit	29,098,214	32,479,413	30,232,273	93.08%	33,177,441
Operating Expenses	14,179,377	13,824,607	14,486,155	104.79%	14,382,413
Net Income	17,249,685	20,912,724	18,054,308	86.33%	21,127,606
Monetary Transfers	34,147,702	39,353,598	35,480,037	90.16%	39,195,902
Provincial Sales Tax	7,445,214	8,124,991	7,446,788	91.65%	0

*2012 figures have been restated to reflect IFRS (International Financial Reporting Standards). Monetary Transfers amounts have been revised to differentiate Provincial Sales Tax, further to the introduction of Harmonized Sales Tax on April 1, 2013.

The PEI Liquor Control Commission delivered both an increased net profit and an increased transfer to the provincial government in fiscal 2012-2013.

Gross receipts were \$97,683,171 for the fiscal year ended March 31, 2013, an increase of \$2,658,439 over the previous year. This increase came as a result of new sales and marketing initiatives.

Net transfers for the year totaled

\$35,480,037, exclusive of Provincial Sales Tax, resulting in a \$1,333,909 increase in the PEILCC's contribution to the province over the previous year.

The 2012 figures have been restated further to the implementation of International Financial Reporting Standards (IFRS).

The yearly transfer represents the best year ever by the commission in terms of contributions to the Provincial Treasury.

Performance Highlights

Figure A – Sources of Gross Revenue
Fiscal Year 2013

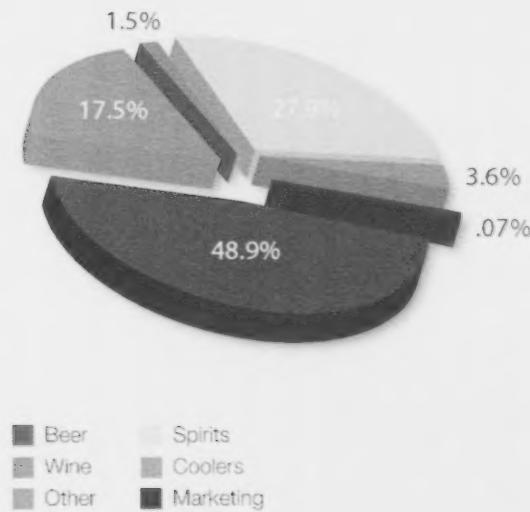
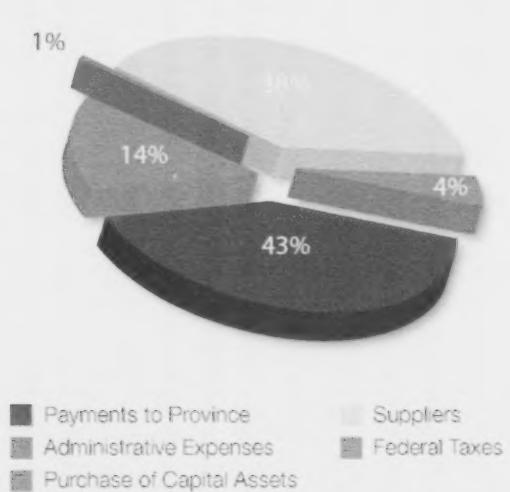


Figure B – Application of Gross Revenue
Fiscal Year 2013



The commission spent approximately \$38.1 million on the purchase of beverage alcohol from both national and international

sources. Gross margins increased by 0.40% due to one-time only marketing promotions.

Goal 2 Customer Service

Goal

To understand the needs of our customers so that we can provide quality products and services that are delivered by knowledgeable, courteous employees in attractive and accessible facilities.

Objectives

1. Enhance the shopping experience for PEILCC wholesale and retail customers.
2. Provide enhanced customer services.
3. Improve product portfolio.

	Actual 2011-2012	Target 2012-2013	Actual 2012-2013	% of 2012-2013 Target	Target 2013-2014
Customers served	2,857,404	3,072,106	2,769,546	90.15%	2,846,132
Average customer transaction value	\$33.26	\$33.76	\$35.27	104.47%	\$35.98

Volumes by Litres

	Actual 2011-2012	Target 2012-2013	Actual 2012-2013	% of 2012-2013 Target	Target 2013-2014
Beer	8,792,292	9,371,202	8,838,314	94.31%	9,265,437
Draught	638,990	689,278	654,664	94.98%	686,301
Spirits	850,476	909,317	837,454	92.10%	877,925
Wine (including BYO)	1,302,494	1,421,417	1,356,409	95.43%	1,421,960
Coolers	392,059	427,856	406,209	94.94%	425,840
Total	11,976,311	12,819,070	12,093,050	94.34%	12,677,463

Performance Highlights

The PEI Liquor Control Commission built on the success of the previous year's record transfer to the province with a number of in-house programs aimed at producing similar results.

New marketing program display opportunities were made available during the course of the year that resulted in sales volume increases for both the participating suppliers and the Commission.

Volume for packaged beer was up slightly this fiscal year reaching 8,838,314 litres, compared to 8,792,292 the previous year. Draught beer volumes were also up slightly for the second year, generating volume of 654,664 litres compared to 638,990 litres, in 2012-2013.

The Cooler category continues to be popular with volumes up slightly over last year's performance with total of 406,209 litres sold.

The Spirit category was down just over 13,000 litres from the previous year, selling 837,454 litres compared to 850,476 litres the previous year. While volumes have declined in this category, sales are trending toward more premium products which is evidenced by the increase in the value of the average customer transaction.

The Wine category displayed strong performance again in 2012-2013 selling a total of 1,356,409 litres, an increase of 53,915 litres over the previous year.

New offerings continued to drive growth in both sales and volume in this category. The availability of one time offerings throughout the year has also been popular with customers. The PEILCC has expanded the Vines concept to include many PEILCC retail outlets displaying these products as a portion of each locations' shelf set.

A number of supplier supported campaigns ran throughout the course of the year including Summer Celebration which offered customers added value through the offer of coupons on those purchases over \$40. *Island Rivers – Worth Protecting* supported the efforts of the Atlantic Salmon Conservation Foundation and the annual holiday campaign offered \$25 in coupons with the purchase of a \$25 gift card.

Corporate retail outlets have all adopted a similar display strategy. This approach permits products to be featured in a like fashion and provides consistency across the retail network.

Local producers continue to benefit from exposure of having their products featured on 'Buy PEI' displays as well as on the shelves with products of their respective category. The province now boasts ten local producers including Barnone Brewery, Gahan Brewery, Honeydew Apiaries, Matos Winery, Matos Winery (Distillery), Myriad View Artisan Distillery, Newman Estates Winery, Prince Edward Distillery, Prince Edward Island Brewing Company and Rossignol Estate Winery.

The Charlottetown Civic Centre served as the venue for the 18th Prince Edward Island Liquor Control Commission's Festival of Wines. This event featured more than 200 wines, many of which are now included among the PEILCC's general listings. The

2012 festival included Argentina as its feature region. Wines from this region were promoted throughout the PEILCC retail network leading up to the festival as well as on site during the event. The feature region concept continues to provide profile not only to the region but also to the Festival of Wines as a whole.

The Commission also participated in other events during the year including the 4th annual PEI Savour Food and Wine Show and the 5th annual Summerside Wine, Arts and Culinary Show. Two beer festivals, the PEI Beer Festival and the PEI International Beer Festival also took place in 2012. All of these events helped generate interest across each of the beer, spirits and wine categories.

A number of PEILCC retail employees have taken advanced training, providing them with an additional level of expertise beneficial when helping customers with product options. This training combined with other initiatives led by the Commission's Wine Category Manager, have contributed to the development of the wine category as a whole. As a result, the PEILCC has been able to exceed its wine sales by volume during fiscal 2012.

The Commission continues to be instrumental in the production of *Occasions*, a quarterly publication featuring articles on items of local interest, as well as recipes that are intended for the enjoyment of PEILCC customers.

Goal 3 Business Effectiveness

Goal

To improve operating efficiencies and manage business practices in a climate of continuous change.

Objectives

1. Operate the business in the most effective and efficient manner possible.
2. Maximize the efficiency of the PEILCC liquor distribution operation.

	Actual 2011-2012	Target 2012-2013	Actual 2012-2013	% of 2012-2013 Target	Target 2013-2014
Distribution Centre fill rate	83.40%	85%	86.80%	102.12%	90.00%
Distribution Centre stock-out rate	2.79%	9%	3.57%	39.67%	9.00%
Warehouse inventory turns/day	81.36	80	79.59	99.49%	79.00
Store inventory turns/day	31.04	34.00	34.60	101.76%	34.00
Gross Receipts per Square Foot (Retail and Licensee)	\$760.39	\$829.82	\$781.67	94.20%	\$819.44

Performance Highlights

The commission set inventory turnover goals at the beginning of the fiscal year as part of its strategic plan. These turnover ratios were based on the year ended March 31, 2012 to measure inventory efficiencies.

The commission has been better able to manage the days in inventory and the warehouse level in order to meet the needs of our customers. Store inventory turns are up slightly from last year which can be attributed to the increase in the number of products held in store inventory and necessary to fulfill customer demands.

An improved store ordering process continues to keep store inventories in check and ensured better distribution and availability of inventory across the retail network. In addition, the central warehouse has been reconfigured to optimize space and manage warehouse efficiency.

Warehouse stock-out reports continue to be utilized in order to better serve customers. These reports allow improved monitoring of inventory to ensure goods are available to be shipped from the warehouse to the store, therefore minimizing the number of stock-outs and increasing customer satisfaction.

Increased customer satisfaction and efficiencies can also be gauged by receipts per square foot. A year over year positive trend in this measurement indicates fewer stock out situations and more products in market, therefore providing increased overall customer satisfaction.

Goal 4

Public Safety and Social Responsibility

Goal

In partnership with community groups and suppliers, the PEILCC will strive to raise public and staff awareness of the responsible use of beverage alcohol.

Objectives

1. Eliminate sales to minors and intoxicated people.
2. Continue to increase the awareness and promote public awareness of issues surrounding responsible use of beverage alcohol.
3. Increase, through partnerships, the effects of the responsible use of alcohol.

	Actual 2011-2012	Target 2012-2013	Actual 2012-2013	% of 2012-2013 Target	Target 2013-2014
% of licensees and permit holders in compliance with legislation, regulations and policies	91.1%	95%	91.6%	96.42%	95%
% of license and permit applications completed within established time frames*	100%	100%	100%	100.00%	100%
Shrinkage (% of gross receipts)	0.03%	0.04%	0.02%	200.00%	0.02%

*Time frame – 7 days for permits, 21 days for licenses.

Performance Highlights

The PEI Liquor Control Commission continues to promote the responsible use of alcohol. The commission strives to provide products that are socially responsible and incorporates responsible messaging into product promotions.

Ongoing responsible use initiatives include: Support Safe Grad Campaign, Challenge and Refusal, and ID Training for PEILCC retail and liquor agency staff, Check 25 ID Program, HOST booklet and various responsible use messages during graduation, long weekends, Christmas and New Year's celebrations. Responsible Use messages were promoted throughout the year using local media and *Occasions* magazine.

The Prince Edward Island Liquor Control Commission continued its support of MADD Canada's Multi-media School Assembly Program during the 2012-13 school year, with 7 presentations of *Long Weekend* taking place in high schools across the Island. The commission also provided ongoing support for MADD Canada's campaign 911, which was launched across the province in 2010. The commission continued to participate on a number of committees promoting responsible use including the Ad Hoc Working Group on Impaired Driving Prevention, the Provincial Impaired Driving Committee, the Provincial Youth Substance Abuse and Addictions Committee, the Canadian Liquor Jurisdictions Social

Responsibility Committee and the Summit to Reduce Impaired Driving on Prince Edward Island. Charities on Prince Edward Island benefited from ongoing fundraising initiatives supported by the commission throughout the year. The 4th annual PEILCC Golf Classic raised over \$13,000, for KidSport PEI and the Easter Seals Society of PEI. The 5th annual wine cooler raffle raised over \$14,000 for the PEI Association of Food Banks.

The second year of an at-cash campaign benefitting the PEI Region of the Canadian Red Cross, was successful in generating over of \$39,000 to continue the support of community programs and relief to Islanders in the time of need.

The PEILCC also completed the second year of a five year agreement with the Atlantic Salmon Conservation Foundation (ASCF) with over \$20,400 collected through this supplier supported campaign. A portion of sales from a variety of products, were donated to the ASCF to assist with projects that help protect and rejuvenate rivers across the province.

The Heart and Stroke Foundation's Paper Hearts campaign took place for the second year in 2012 and was successful in raising over \$5,000. The Foundation uses these funds to continue the advancement of research, promotion of healthy living and advocacy.



Photos from top row: Cheque presentations to the PEI Association of Food Banks. Second row: Atlantic Salmon Conservation Foundation. Third Row: Heart and Stroke Foundation, Easter Seals Society of PEI and KidSport. Bottom row: Working with MADD Canada and Charlottetown Police Services on responsible use programs.

The PEILCC actively assists various groups and causes through coin box collections in all retail outlets. Groups receiving from this activity included CAT Action Team, ALS Society of PEI, Crohn's and Colitis Foundation of Canada, IWK Health Centre, MADD Canada, Make a Wish Foundation, MS Society, PEI Humane Society, PEI Lung Association, and the Prince Edward Island Rape and Sexual Assault Centre.

During the fiscal year, the commission continued its commitment to social responsibility in the areas of alcohol service and community support. The PEILCC partnered with a number of outside agencies in shared activities including:

- Participation as an active member of the Canadian Association of Liquor Jurisdictions (CALJ) Social Responsibility Committee.
- Affiliation with the Culinary Institute of Canada, to provide the mandatory server program *It's Our Business*, an awareness program for staff of licensed premises.
- Raising monies for ALS Society of PEI, Canadian Diabetes Association, Easter Seals Society of PEI, IWK Health Centre Foundation, Parkinson Society of Canada, Prince County Hospital Foundation and the QEII Foundation through staff dress-down days and other staff events raising a total of \$9,734.97.
- Generating over \$4,095 in support of the Hospice Palliative Care Association of PEI through proceeds from the silent auction, held during the 18th annual Festival of Wines.

Optimal compliance to the *Liquor Control Act*, Regulations and Policies is a primary objective of the commission. Retail staff are required to check and verify the age of customers and refuse minors or intoxicated persons. In 2012-2013, store staff checked 71,079 people suspected of being underage, intoxicated or with no ID and refused service to 2,583. Liquor inspectors performed 4,095 compliance inspections and 7,784 ID checks in licensed premises.

After evaluating all stores in relation to established criteria, the staff of the Stratford store was awarded the Annual CEO's Award of Merit for Loss Prevention for fiscal 2012-2013.

Linda Somers (left), Manager of the Stratford Liquor Store accepts the CEO's Award for Merit for Loss Prevention on behalf of the store staff from Hector MacLeod, Chairman on the PEILCC.



Goal 5

Workplace Quality and Employee Excellence

Goal

Build a customer-focused, high-performance work environment that results in greater employee involvement, development, innovation and creativity.

Objectives

1. Enhance staff skills through employee training programs.
2. Continue to develop a customer-focused workplace.
3. Provide a safe, healthy and harassment-free workplace.

	Actual 2011-2012	Target 2012-2013	Actual 2012-2013	% of 2012-2013 Target	Target 2013-2014
Workplace quality training	68	125	70	56.00%	130
Product knowledge	100	156	98	62.82%	175
Staff development (professional and personal)	184	125	190	152.00%	100

Performance Highlights

Training is offered to PEI Liquor Control Commission employees on an on-going basis. The Product Knowledge Course, offered in conjunction with the Liquor Control Board of Ontario (LCBO) is available to all staff, providing an opportunity to expand their product knowledge.

In addition to the LCBO program a wine appreciation and knowledge course is offered by the Category Manager of Wine. This intensive program is aimed at ensuring knowledgeable staff are available in PEILCC stores to assist customers when selecting wines and to provide suggestions for food and wine pairing.

PEILCC staff benefit from product seminars throughout the year. These sessions have included industry led seminars as well as

opportunities to visit local producers in order to learn firsthand how products are made.

The PEILCC is very conscious of the need for safety awareness in the workplace, not only for employees but also for customers. It is for this reason that First Aid and CPR training is made available to all staff on an annual basis. In the future, more emphasis will be placed in this area with regard to seasonal employees who are hired during the peak summer season and experience a high concentration of customer traffic.

Occupational Health and Safety (OH&S) plays an important role in the PEILCC's day to day operations. The PEILCC ensures that OH&S representatives receive updated training on their responsibilities, including

courses that ensure safe workplaces for both employees and customers.

Identification verification seminars were offered for and attended by a cross-section of corporate retail and liquor agency staff. These presentations provided the opportunity for staff to increase their skills in the recognition of altered identification.

Ceridian Canada Ltd. provided professional development opportunities until the end of the 2012 calendar year. PEILCC staff continue to pursue training and education through courses offered by universities and other post secondary institutions.

Those employees who are interested in advancing to management roles have been actively involved in business management training during recent years. The province's Development and Training Fund continues to provide assistance to employees as they pursue advanced training opportunities.

The Prince Edward Island Liquor Control Commission continues to identify opportunities and challenges, as well as to meet the expectations of an increasingly diverse and discerning customer base. Store renovations and a new merchandising strategy have improved the way in which products are displayed as well as the customer experience.

On-going investment and planning is required to meet customers' needs and keep standards moving forward. In addition, continued investment in human resources and financial resources are also necessary to fulfill its strategic plan.

Capital planning is required to provide for future needs. The commission has increased its monetary transfer goal to over \$39 million exclusive of the Provincial portion of the HST for the 2013-2014 fiscal year to ensure this investment can be made.

Managing human resources continues to be a key challenge for the PEILCC. It constantly reviews resource needs and training opportunities to meet changing retail and technology requirements.

Challenges and Opportunities Ahead

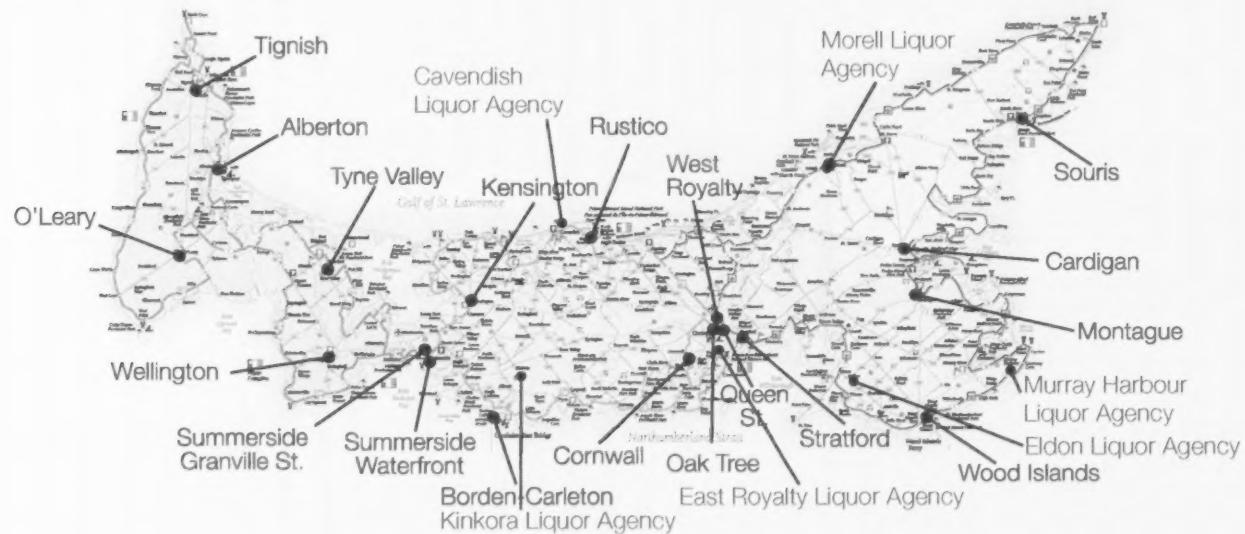
A disciplined category management approach, working in co-ordination with the supply chain, has provided a more efficient system to get products from the commission's international supply chain onto its store shelves. The PEILCC continues to investigate new opportunities for products and their distribution to meet customer demand.

The commission's commitment to social responsibility presents ongoing opportunities to communicate and reinforce

the message of responsible use and public safety to a wide range of audiences.

Underlying all of these challenges and opportunities is the vision of excellence in management. Being prepared to capitalize on new opportunities in the marketplace and continuing to integrate and streamline operations is key. The PEILCC is confident that it is building an organization which is internally more efficient and will continue to be publicly accountable.

Prince Edward Island Liquor Control Commission Retail Liquor Outlets



Corporate Retail Outlets	Liquor Agency Stores
Alberton	Cavendish
Borden-Carleton	East Royalty
Cardigan	Eldon
Cornwall	Kinkora
Kensington	Morell
Montague	Murray Harbour
North Rustico	
Oak Tree	
O'Leary	
Queen Street	
Souris	
Stratford	
Summerside – Granville Street	
Summerside – Waterfront Mall	
Tignish	
Tyne Valley	
Wellington	
West Royalty	
Wood Islands* Scheduled to convert to Liquor Agency May 2013	

Statistics

Retail Gross Receipts by Store

Retail Store	Year Ended March 31, 2013	Year Ended March 31, 2012	Increase (Decrease)
Alberton	1,569,125	1,558,512	10,613
Borden/Carleton	1,796,664	1,730,552	66,112
Cardigan	1,910,273	1,882,392	27,881
Charlottetown - Oak Tree Place	15,787,741	16,105,858	(318,117)
Charlottetown - Queen Street	3,730,671	3,622,148	108,523
Cornwall	5,452,886	5,380,445	72,441
Kensington	3,220,984	3,277,615	(56,631)
Licensee Distribution Centre	12,163,700	9,717,871	2,445,829
Montague	5,162,978	5,126,821	36,157
North Rustico	3,325,960	3,406,681	(80,721)
O'Leary	1,758,386	1,724,660	33,726
Souris	2,804,773	2,660,632	144,141
Stratford	8,376,070	8,277,064	99,006
Summerside - Granville Street	8,073,499	7,813,642	259,857
Summerside - Waterfront	4,627,456	4,848,887	(221,431)
Tignish	2,631,154	2,423,028	208,126
Tyne Valley	1,090,008	1,053,635	36,373
Warehouse/Other	784,688	655,872	128,816
Wellington	1,267,433	1,287,532	(20,099)
West Royalty	11,905,942	12,035,762	(129,820)
Wood Islands	242,780	435,123	(192,343)
Total	\$97,683,171	\$95,024,732	\$2,658,439

Statistics

Summary of Profit and Expense Ratios

Two-year Comparison

(in 000s)

	2013	2012
Gross Receipts	\$97,683	\$95,024
Gross Profit	30,232	29,098
Net Profit	18,054	17,250
General and Administrative Expenses	14,486	14,179
Gross Profit as a Percentage of Gross Receipts	30.95%	30.62%
Net Profit as a Percentage of Gross Receipts	18.48%	18.15%
General and Administrative Expenses as a Percentage of Gross Receipts	14.83%	14.92%

Table A – Spirit Sales Volumes (litres) by Product Type

	2013	2012
Rum	267,901	278,924
Vodka	223,113	221,137
Whiskey	157,332	155,832
Premix	73,104	82,001
Liqueurs	57,740	58,966
Scotch	20,949	21,008
Gin	19,423	17,862
Tequila	5,284	4,732
Bourbon	5,362	4,908
Brandy	3,785	4,008
Miscellaneous	3,461	1,098
Total	837,454	850,476

Table B – Wine Sales Volumes (litres) by Product Type

	2013	2012
White	696,845	647,419
Red	558,879	552,636
Fruit	33,331	40,345
Sherry	15,010	14,765
Rose	19,467	18,218
Cider	14,921	12,202
Port	4,191	4,506
Dessert	801	377
Vermouth	2,501	2,553
Miscellaneous	10,463	9,473
Total	1,356,409	1,302,494

Table C – Beer Sales Volumes (litres) by Product Type

	2013	2012
Packaged	8,838,314	8,792,292
Draught	654,664	638,990
Total	9,492,978	9,431,282

Table D – Cooler Sales Volumes (litres) by Product Type

	2013	2012
Spirit Coolers	398,031	382,562
Wine Coolers	8,178	9,497
Total	406,209	392,059

Table E – 2013 Public versus Licensee Gross Sales by Category

	2013			2012		
	Public	Licensee	Total	Public	Licensee	Total
Beer	\$38,304,945	\$10,014,259	\$48,319,204	\$38,074,441	\$ 8,633,101	\$46,707,542
Spirits	24,068,204	3,292,020	27,360,224	24,704,750	2,486,999	27,191,749
Wine	16,032,330	2,678,701	18,711,031	15,611,192	2,330,961	17,942,153
Coolers	2,740,359	533,585	3,273,944	2,690,103	476,831	3,166,934
Non Alcohol	18,484	284	18,768	16,160	194	16,354
Total	\$81,164,322	\$16,518,849	\$97,683,171	\$81,096,646	\$13,928,086	\$95,024,732

Table F – 2013 Public versus Licensee Sales Volumes (litres) by Category

	2013			2012		
	Public	Licensee	Total	Public	Licensee	Total
Beer	7,311,134	2,181,843	9,492,978	7,471,563	1,959,719	9,431,282
Spirits	723,125	114,329	837,454	762,102	88,374	850,476
Wine	1,136,811	219,599	1,356,409	1,117,032	185,462	1,302,494
Coolers	334,248	71,961	406,209	329,272	62,786	392,059
Total	9,505,318	2,587,732	12,093,050	9,679,969	2,296,342	11,976,311

Statistics

Total Licenses and Special Permits March 31, 2012 and March 31, 2013

License Type	Year Ended March 31, 2013	Year Ended March 31, 2012
Dining Room	189	179
Lounge	88	84
Club	52	54
Military Canteen	19	20
Special Premise	82	74
Caterer	29	28
Agency Store	1	1
Liquor Agency	5	0
Winery	4	4
Micro-Brewery	3	1
Tourist Home	6	6
Distillery	3	2
Brew Pub	1	1
Ferment on Premises	5	5
Total Licenses in Effect	487	459

Special Permits Issued	Year Ended March 31, 2013	Year Ended March 31, 2012
Class I	157	135
Class II	247	300
Total	404	435

A Class I permit entitles host to give beverages to guests.
A Class II permit entitles host to sell beverages to guests.

Management's Report

Mr. Hector MacLeod, Chairman
PEI Liquor Control Commission
PO Box 967
Charlottetown, PE C1A 7M4

Dear Mr. MacLeod:

The preparation of financial information is an integral part of management's responsibilities and the accompanying financial statements are the responsibility of the management of the commission. This responsibility includes the selection of appropriate accounting policies and making judgments and estimates consistent with International Financial Reporting Standards.

The commission maintains an accounting system and related controls that provide management and the commission with reasonable assurance that transactions are executed and recorded as authorized, that assets are properly safeguarded and accounted for, and that financial records are reliable for the preparation of financial statements in accordance with International Financial Reporting Standards. This is the second year of reporting under the new requirements.

Financial information presented elsewhere in this annual report is consistent with that in the financial statements.



Brooke MacMillan
Chief Executive Officer



Carl J. Adams, CA
Chief Financial Officer

Appendix

Auditor's Report and Audited Financial Statements

AUDITOR GENERAL
CHARLOTTETOWN
PRINCE EDWARD ISLAND

PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION
FINANCIAL STATEMENTS
MARCH 31, 2013

AUDITOR GENERAL

CHARLOTTETOWN
PRINCE EDWARD ISLAND

INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the Prince Edward Island Liquor Control Commission

I have audited the accompanying financial statements of the **Prince Edward Island Liquor Control Commission** which comprise the statement of financial position as at March 31, 2013, and the statements of comprehensive income and changes in retained earnings, and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted the audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2013, and the results of its operations and changes in cash flow for the year then ended in accordance with International Financial Reporting Standards.



B. Jane MacAdam, CA
Auditor General

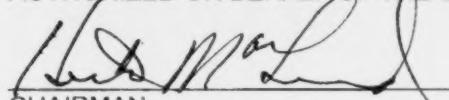
Charlottetown, Prince Edward Island
September 25, 2013

**PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2013**

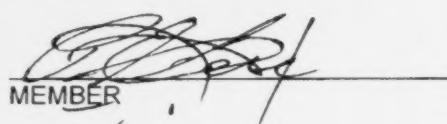
	<u>2013</u>	<u>Restated 2012</u>	<u>Restated April 1, 2011</u>
	\$	\$	\$
Assets			
Current Assets			
Cash (Note 10)	2,706,686	1,519,208	622,595
Accounts receivable (Notes 5, 10)	783,843	931,096	912,253
Inventory (Note 6)	7,049,309	5,998,560	5,586,541
Prepaid expenses	<u>143,653</u>	<u>117,129</u>	<u>110,815</u>
	<u>10,683,491</u>	<u>8,565,993</u>	<u>7,232,204</u>
Non Current Assets			
Property, plant, and equipment (Notes 7, 16)	<u>5,973,905</u>	<u>6,266,744</u>	<u>6,272,543</u>
Total Assets	<u>16,657,396</u>	<u>14,832,737</u>	<u>13,504,747</u>
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities (Notes 8, 10)	1,976,619	1,950,118	2,241,068
Due to the Province of Prince Edward Island (Note 10)	12,830,981	10,366,358	7,847,374
Deferred revenue	95,471	84,418	72,472
Current portion of debentures payable (Notes 9, 10)	<u>455,962</u>	<u>677,518</u>	<u>911,990</u>
	<u>15,359,033</u>	<u>13,078,412</u>	<u>11,072,904</u>
Non Current Liabilities			
Debentures payable (Notes 9, 10)	<u>1,298,363</u>	<u>1,754,325</u>	<u>2,431,843</u>
Total Liabilities	<u>16,657,396</u>	<u>14,832,737</u>	<u>13,504,747</u>

(The accompanying notes are an integral part of these financial statements.)

AUTHORIZED ON BEHALF OF THE COMMISSION:



CHAIRMAN



MEMBER

PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION
STATEMENT OF COMPREHENSIVE INCOME AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED MARCH 31, 2013

	<u>2013</u>	<u>Restated 2012</u>
	\$	\$
Revenue		
Sales (Note 13)	68,337,406	66,380,637
Cost of goods sold (Note 6)	<u>38,105,133</u>	<u>37,282,423</u>
Gross profit	<u>30,232,273</u>	<u>29,098,214</u>
Expenses		
Amortization (Note 16)	1,017,050	831,518
Insurance and taxes (Note 15)	181,954	166,933
Interest on long-term debt (Notes 9, 15)	104,046	150,101
Leases (Note 12)	768,012	781,178
Other operating expenses	934,055	874,176
Repairs and maintenance	808,148	627,022
Salaries and benefits (Notes 14, 15)	9,229,462	9,335,246
Store and office expenses	539,333	487,352
Travel	141,314	151,127
Utilities	<u>762,781</u>	<u>774,724</u>
	<u>14,486,155</u>	<u>14,179,377</u>
Income from operations	15,746,118	14,918,837
Other income	2,308,190	2,180,893
Gain on exchange of non current assets (Note 15)	<u>-</u>	<u>149,955</u>
Comprehensive income	18,054,308	17,249,685
Retained earnings, beginning of year	<u>-</u>	<u>-</u>
Distributions to the Province of Prince Edward Island (Note 3(h))	<u>18,054,308</u>	<u>17,249,685</u>
Retained earnings, end of year	<u>-</u>	<u>-</u>

(The accompanying notes are an integral part of these financial statements.)

**PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED MARCH 31, 2013**

	2013	Restated 2012
	\$	\$
Cash provided (used) by:		
Operating Activities		
Comprehensive income for the year	18,054,308	17,249,685
Gain on exchange of assets	-	(149,955)
Amortization	<u>1,017,050</u>	<u>831,518</u>
	<u>19,071,358</u>	<u>17,931,248</u>
Change in working capital:		
Accounts receivable	147,253	(18,843)
Inventories	<u>(1,050,749)</u>	<u>(412,019)</u>
Prepaid expenses	(26,524)	(6,314)
Accounts payable	26,501	(290,950)
Deferred revenue	<u>11,053</u>	<u>11,946</u>
Cash provided by operating activities	<u>18,178,892</u>	<u>17,215,068</u>
Financing Activities		
Payments to the Province of Prince Edward Island	(15,589,685)	(14,730,702)
Debenture repayments	<u>(677,518)</u>	<u>(911,990)</u>
Cash used by financing activities	<u>(16,267,203)</u>	<u>(15,642,692)</u>
Investing Activities		
Acquisition of property, plant, and equipment	<u>(724,211)</u>	<u>(675,763)</u>
Change in cash	1,187,478	896,613
Cash, beginning of year	<u>1,519,208</u>	<u>622,595</u>
Cash, end of year	<u>2,706,686</u>	<u>1,519,208</u>
Supplementary disclosure		
Interest paid	<u>114,361</u>	<u>163,529</u>

(The accompanying notes are an integral part of these financial statements.)

PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013

1. General Information and Nature of Operations

The Prince Edward Island Liquor Control Commission (the Commission) is a wholly owned Crown corporation of the Province of Prince Edward Island responsible for managing the importation, sale, and distribution of beverage alcohol throughout Prince Edward Island. The head office is located at 3 Garfield Street in Charlottetown with outlets in various locations across the province.

2. Statement of Compliance and Approval

The financial statements of the Commission have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

These financial statements were authorized for issuance by the Board of Commissioners on June 18, 2013.

3. Summary of Significant Accounting Policies

a) International Financial Reporting Standards (IFRS)

The financial statements have been prepared using the accounting policies specified by IFRS, issued and in effect as of March 31, 2013. The significant accounting policies used in the preparation of these financial statements are summarized below.

These accounting policies have been used throughout all of the periods presented.

An overview of the standards, amendments, and interpretations on the conversion to IFRS that are issued but not yet in effect are presented in Note 3(g).

b) Presentation of the Financial Statements

The financial statements are presented in accordance with International Accounting Standard 1 (IAS 1), "*Presentation of Financial Statements*". The Commission has elected to present a single statement of comprehensive income. The financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is the functional currency of the Commission.

c) Revenue Recognition

Revenue is derived from the sale of goods and other income from the rendering of services. Reconciliation between gross receipts and revenue is shown in Note 13.

PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013

3. Summary of Significant Accounting Policies (continued...)

c) Revenue Recognition (continued...)

Revenue is measured by reference to the fair value of the consideration received or receivable by the Commission for the goods or services supplied, exclusive of sales tax, deposits, health tax, rebates, and trade discounts.

Sales

Revenue from the sale of goods is recognized when the amount of revenue can be reliably measured, collection is probable, the costs incurred or to be incurred can be reliably measured, and when significant risks and rewards of ownership have been transferred to the buyer.

Significant risks and rewards are generally considered to be transferred to the buyer when the customer has taken legal title and possession of the goods and contractual obligations have been met.

Other Income

Other income includes permit and license fees, marketing fees, and limited time offer promotions. Revenue from other income is recognized when the amount of revenue can be reliably measured, it is probable that economic benefits will flow to the Commission, the stage of completion can be reliably measured, and the costs incurred to date and the costs required to complete the transaction can be reliably measured.

Deferred Revenue

The Commission sells gift cards to its customers and initially records the amount to deferred revenue. Revenue is recognized as the gift cards are redeemed. If, in the opinion of management, the likelihood of the gift card being redeemed is remote then the revenue will be recognized immediately.

d) Expenses

Expenses are recorded on an accrual basis in the period in which the transaction or event that gave rise to the expense occurred.

e) Inventory

Inventory is valued at the lower of cost or net realizable value on a first-in, first-out basis. Inventory costs include the purchase price, duty and excise taxes, and standard freight rates.

PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013

3. Summary of Significant Accounting Policies (continued...)

f) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost less accumulated amortization. All capital asset additions over \$1,000 are capitalized. Amortization is calculated on a straight line basis at the following rates:

Asset	Rate
Buildings	2.5%, 3.33%, 6.66%
Equipment	20%
Vehicles	30%
Leasehold Improvements	5% and 10%
Financial Information System	20% and 100%

In the year of acquisition, one half of the yearly amortization rate is applied.

g) International Financial Reporting Standards Not Yet In Effect

At the date of issuance of these statements certain new standards, amendments, and interpretations to existing standards have been published but are not yet in effect. The Commission has chosen not to adopt these early, as allowed by IFRS. Management anticipates that all relevant pronouncements will be adopted as the Commission's policy in the first period following the effective date. A list of applicable pronouncements and their effective dates are as follows:

IFRS 1 *First Time Adoption of IFRS - Government Loans (Amendments to IFRS 1)* with an effective date of the first fiscal period beginning on or after January 1, 2013.

IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)* with an effective date of the first fiscal period beginning on or after January 1, 2013.

IFRS 9 *Financial Instruments* with an effective date of the first fiscal period beginning on or after January 1, 2015.

IFRS 13 *Fair Value Measurement* with an effective date of the first fiscal period beginning on or after January 1, 2013.

IAS 1 *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)* with an effective date of the first fiscal period beginning on or after July 1, 2012.

IAS 19 *Employee Benefits* with an effective date of the first fiscal period beginning on or after January 1, 2013.

IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)* with an effective date of the first fiscal period beginning on or after January 1, 2014.

PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013

3. Summary of Significant Accounting Policies (continued...)

g) International Financial Reporting Standards Not Yet In Effect (continued...)

The estimated impact of the above pronouncements on the financial statements is unknown at this time.

h) Capital Management

The Commission's objective when managing capital is to keep minimal capital on hand. This objective is achieved by accruing all comprehensive income to the Province and transferring it on a continuous basis as excess capital becomes available.

i) Cash

Cash consists of cash on hand and amounts on deposit with financial institutions.

4. Significant Accounting Judgements and Estimates

The preparation of financial statements requires management to make estimates, judgements, and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. The actual results may materially differ from management's estimation. Items requiring the use of significant estimates include property, plant, and equipment carried at \$5,973,905 (2012 - \$6,266,744), accrued liabilities of \$438,539 (2012 - \$484,697) and standard inventory freight rates of \$211,479 (2012 - \$179,957).

5. Accounts Receivable

	<u>2013</u>	<u>2012</u>
	\$	\$
Trade receivables	699,158	856,996
Province of Prince Edward Island	<u>84,685</u>	<u>74,100</u>
	<u>783,843</u>	<u>931,096</u>

All amounts in the accounts receivable balance are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

The receivable due from the Province of Prince Edward Island relates to a wage reimbursement for one employee on secondment to the Commission. The carrying amount of the receivable is considered a reasonable approximation of fair value as this financial asset is expected to be paid within the year, such that the time value of money is not significant.

PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013

5. Accounts Receivable (continued...)

All of the Commission's trade and other receivables have been reviewed for indications of impairment. It is management's assessment that all amounts are collectable and none are impaired.

6. Inventories

Inventories recognized in the statement of financial position consist of liquor products held for sale. In 2013, a total of \$38,105,133 of inventories was included in the statement of comprehensive income as a cost of goods sold (2012 - \$37,282,423).

There were no write-downs of inventories. No reversals of previous write-downs were recognized as a reduction of expense in 2013 or 2012. None of the inventories are pledged as security for liabilities.

7. Property, Plant, and Equipment

The Commission's property, plant, and equipment is comprised of land, buildings, equipment, vehicles, leasehold improvements, and financial information system. The carrying amounts can be analysed as follows for the current fiscal year:

	<u>Land</u> \$	<u>Buildings</u> \$	<u>Equipment</u> \$	<u>Vehicles</u> \$	<u>Leasehold Improvements</u> \$	<u>Financial Information System</u> \$	<u>Total</u> \$
<u>Cost</u>							
Balance, April 1, 2012	69,859	5,922,444	2,369,995	116,787	5,754,693	3,261,477	17,495,255
Additions	-	193,890	365,891	-	61,101	103,329	724,211
Balance, March 31, 2013	<u>69,859</u>	<u>6,116,334</u>	<u>2,735,886</u>	<u>116,787</u>	<u>5,815,794</u>	<u>3,364,806</u>	<u>18,219,466</u>
<u>Accumulated Depreciation</u>							
Balance, April 1, 2012	-	2,809,423	1,847,812	103,241	3,819,557	2,648,478	11,228,511
Depreciation	-	185,231	194,419	4,780	342,638	289,982	1,017,050
Balance, March 31, 2013	<u>-</u>	<u>2,994,654</u>	<u>2,042,231</u>	<u>108,021</u>	<u>4,162,195</u>	<u>2,938,460</u>	<u>12,245,561</u>
Net Book Value, March 31, 2013	69,859	3,121,680	693,655	8,766	1,653,599	426,346	5,973,905

The Commission has not pledged any of its property, plant, and equipment as security.

**PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013**

7. Property, Plant, and Equipment (continued...)

The carrying amounts can be analysed as follows for the previous fiscal year:

	<u>Land</u> \$	<u>Buildings</u> \$	<u>Equipment</u> \$	<u>Vehicles</u> \$	<u>Leasehold Improvements</u> \$	<u>Financial Information System</u> \$	<u>Total</u> \$
<u>Cost</u>							
Balance, April 1, 2011	85,537	5,677,810	2,065,352	100,850	5,681,585	3,058,402	16,669,536
Additions	-	244,634	304,643	15,937	73,108	203,075	841,397
Disposals	15,678	-	-	-	-	-	15,678
Balance, March 31, 2012	69,859	5,922,444	2,369,995	116,787	5,754,693	3,261,477	17,495,255
<u>Accumulated Depreciation</u>							
Balance, April 1, 2011	-	2,653,994	1,688,859	100,850	3,546,915	2,406,375	10,396,993
Depreciation	-	155,429	158,953	2,391	272,642	242,103	831,518
Balance, March 31, 2012	-	2,809,423	1,847,812	103,241	3,819,557	2,648,478	11,228,511
Net Book Value, March 31, 2012	69,859	3,113,021	522,183	13,546	1,935,136	612,999	6,266,744

8. Accounts Payable and Accrued Liabilities

	2013 \$	2012 \$
Trade payables	1,787,435	1,801,201
Province of Prince Edward Island	189,184	148,917
	1,976,619	1,950,118

9. Debentures Payable

	2013 \$	2012 \$
Point of Sale System, repayable in equal annual installments of \$221,583 including interest, 4.62%, matures December 18, 2012.	-	211,798
Wood Islands, repayable in equal annual installments of \$33,052 including interest, 5.85%, matures November 27, 2012.	-	31,225
Charlottetown (Queen Street), repayable in equal annual installments of \$60,016 including interest, 5.61%, matures August 1, 2013.	56,828	110,638
Tignish, repayable in equal annual installments of \$99,684 including interest, 5.40%, matures January 9, 2014.	94,577	184,309
Charlottetown (Head Office), repayable in equal annual installments of \$38,889 including interest, 5.02%, matures March 7, 2015.	72,290	105,864

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9. Debentures Payable (continued...)

	<u>2013</u> \$	<u>2012</u> \$
Sherbrooke, repayable in equal annual installments of \$38,493 including interest, 4.81%, matures February 28, 2016.	105,202	137,102
West Royalty, repayable in equal annual installments of \$64,156 including interest, 4.81%, matures August 30, 2016.	228,502	279,228
Souris, repayable in equal annual installments of \$101,660 including interest, 4.74%, matures March 30, 2017.	362,670	443,317
Charlottetown (Oak Tree), repayable in equal annual installments of \$16,409 including interest, 5.28%, matures June 27, 2017.	70,496	82,546
Charlottetown (Head Office and Warehouse), repayable in equal annual installments of \$31,393 including interest, 4.37%, matures January 20, 2020.	185,873	208,169
Stratford, repayable in equal annual installments of \$86,542 including interest, 4.20%, matures September 13, 2020.	<u>577,887</u>	<u>637,647</u>
Total	1,754,325	2,431,843
Less current portion	<u>455,962</u>	<u>677,518</u>
Long-term portion	<u>1,298,363</u>	<u>1,754,325</u>

All debentures are payable to the Province of Prince Edward Island.

Principal repayments for the next five years are as follows:

<u>Fiscal Year</u>	<u>Amount</u> \$
2014	455,962
2015	318,798
2016	294,819
2017	269,983
2018	116,609
Thereafter	<u>298,154</u>
	<u>1,754,325</u>

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10. Financial Instruments

Financial Assets

The Commission's financial assets include cash and accounts receivable. Cash has been classified as fair value through profit and loss and receivables have been classified as loans and receivables.

Cash is designated as held for trading and it is measured at fair value. Any gains or losses from this measurement are recognized through profit or loss.

Loans and receivables are financial assets with a fixed or determinate payment that are not quoted on an active market. These are measured at amortized cost using the effective interest rate method less a provision for any impairment. Discounting has been omitted as any effect on the carrying balance is not significant.

Financial Liabilities

The Commission's financial liabilities consist of accounts payable, accrued liabilities, amounts due to the Province of Prince Edward Island, and debentures payable. These liabilities are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.

Fair Value

Financial assets and liabilities are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods is based on classification as held-for-trading, loans and receivables, and other financial liabilities.

Financial assets and liabilities recorded in the statement of financial position at fair market value are categorized based on the fair value hierarchy of inputs. The Level 1 hierarchy is unadjusted quoted prices in active markets for identical assets and liabilities. This level of inputs is used to measure fair value of cash.

Fair values for accounts receivable, accounts payable, accrued liabilities, and amounts due to the Province of Prince Edward Island approximate their carrying amounts due to their short-term nature.

The fair value of debentures payable is not materially different from its carrying value as there has not been a significant fluctuation in interest rates.

Transaction Costs

Transaction costs for fair value through profit or loss instruments are recognized as profit or loss immediately while transaction costs for other financial instruments form part of the original value of the financial instrument.

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10. Financial Instruments (continued...)

De-recognition

De-recognition of a financial instrument occurs when the contractual rights to the cash flow generated by the asset expire, when the financial asset and substantially all of the risks and rewards are transferred to a third party, or when the obligation in the contract is discharged, cancelled, or expires.

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and liabilities:

	<u>2013</u> \$	<u>2012</u> \$
Financial Assets		
Financial assets at fair value through profit or loss, designated as held for trading		
Cash	2,706,686	1,519,208
Loans and receivables measured at amortized cost		
Accounts receivable (Note 5)	<u>783,843</u>	<u>931,096</u>
	<u>3,490,529</u>	<u>2,450,304</u>
	<u>2013</u> \$	<u>2012</u> \$
Financial Liabilities		
Other financial liabilities measured at amortized cost		
Non current		
Debentures payable (Note 9)	1,298,363	1,754,325
Current		
Due to the Province of Prince Edward Island	12,830,981	10,366,358
Accounts payable and accrued liabilities (Note 8)	1,976,619	1,950,118
Current portion of debentures payable (Note 9)	<u>455,962</u>	<u>677,518</u>
	<u>16,561,925</u>	<u>14,748,319</u>

A description of the Commission's risk management objectives and policies for financial instruments is included in Note 11.

11. Financial Risk Management

The Commission is exposed to various risks in relation to financial instruments. The Commission's financial assets and liabilities by category are summarized in Note 10. The main types of risks are market, credit, and liquidity risk.

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11. Financial Risk Management (continued...)

Market Risk

Market risk consists of three types: currency risk, interest rate risk, and price risk. The Commission's market risk management focuses on the unpredictability of financial and economic markets and seeks to minimize potential effects on the Commission's financial performance. In common with many organizations that purchase in foreign currencies, the Commission may be exposed to a marginal degree of currency risk. Management has mitigated the exposure to this risk by limiting the number of purchase transactions originating in foreign currency.

The Commission's policy is to minimize interest rate cash flow risk exposures on long-term financing. Long-term borrowing is at fixed rates.

The Commission's financial instruments are not subject to significant price risk.

Credit Risk

Credit risk is the risk the Commission will incur a loss because a customer fails to meet an obligation. The Commission is exposed to this risk for financial instruments classified as loans and receivables by granting credit to customers. The Commission's maximum exposure to credit risk is limited to the carrying amount of loans and receivables recognized at the reporting date as summarized below:

	<u>2013</u>	<u>2012</u>
	\$	\$
Loans and receivables	<u>783,843</u>	<u>931,096</u>

The Commission has mitigated its exposure to this risk through the limited extension of credit and its contractual relationships with its business partners. The Commission's management considers all of the above loans and receivables to be unimpaired for each of the reporting dates and are of good credit quality.

Some of the unimpaired trade receivables are past due as at the reporting date. Trade receivables past due but unimpaired are as follows:

	<u>2013</u>	<u>2012</u>
	\$	\$
Current	342,059	277,955
Less than 30 days	164,685	118,722
30 - 60 days	194,926	29,103
60 days - 1 year	80,576	469,501
More than 1 year	1,597	35,815
	<u>783,843</u>	<u>931,096</u>

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11. Financial Risk Management (continued...)

With respect to trade and other receivables, the Commission is not exposed to any significant credit risk exposure to any single supplier or country of origin. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates management considers the credit quality of trade receivables not impaired to be good.

Liquidity Risk

Liquidity risk is the risk that the Commission would be unable to meet its obligations. The Commission manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash inflows and outflows due in day-to-day business. The data used for analyzing these cash flows is consistent with that used in the contractual maturity analysis below. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30 day outlook. Net cash requirements are compared to available borrowing facilities in order to determine any surplus or shortfall.

The Commission's objective is to maintain cash and marketable securities to meet its liquidity requirements for a minimum 30 day period. This objective was met for the reporting period. Funding for long-term liquidity needs are secured by adequate amounts of committed credit facilities. The Commission's existing cash resources, trade receivables, and cash generated from operations significantly exceed the current cash outflow requirements.

The Commission's contractual financial liabilities as at March 31, 2013, mature as follows:

	Current		Non Current	
	<u>Within 6 months</u>	<u>6 to 12 Months</u>	<u>1 to 5 Years</u>	<u>After 5 Years</u>
	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,976,619			
Due to the Province	12,830,981			
Debentures	<u>184,951</u>	<u>271,011</u>	<u>1,000,211</u>	<u>298,152</u>
	<u>14,992,551</u>	<u>271,011</u>	<u>1,000,211</u>	<u>298,152</u>

The Commission's contractual financial liabilities as at March 31, 2012, matured as follows:

	Current		Non Current	
	<u>Within 6 months</u>	<u>6 to 12 Months</u>	<u>1 to 5 Years</u>	<u>After 5 Years</u>
	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,950,118			
Due to the Province	10,366,358			
Debentures	<u>176,346</u>	<u>501,172</u>	<u>1,339,563</u>	<u>414,762</u>
	<u>12,492,822</u>	<u>501,172</u>	<u>1,339,563</u>	<u>414,762</u>

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12. Operating Leases and Commitments

Operating Leases

The Commission leases thirteen retail outlets. The following are the Commission's future minimum lease payments:

	<u>Within 1 Year</u> \$	<u>1 to 5 Years</u> \$	<u>After 5 Years</u> \$	<u>Total</u> \$
March 31, 2013	702,441	1,831,119	622,658	3,156,218
March 31, 2012	684,008	1,656,735	168,813	2,509,556

Lease payments recognized as an expense during the period are \$768,012 (2012 - \$781,178).

Commitments

The Commission has entered into contracts with various suppliers for hardware maintenance, software support services and internet access. The total of these contracts is \$405,288 and they expire in one to four years.

13. Gross Receipts

	<u>2013</u> \$	<u>2012</u> \$
Sales	68,337,406	66,380,637
Taxes collected and remitted		
Provincial Health Tax	17,425,729	16,898,017
Provincial Sales Tax	7,446,788	7,445,214
Federal Goods and Services Tax	4,473,248	4,300,864
Gross receipts	<u>97,683,171</u>	<u>95,024,732</u>

14. Employee Benefits

a) Pension Benefits

Permanent employees of the Commission participate in the Province of Prince Edward Island Civil Service Superannuation Pension Plan (the Plan) which is a multi-employer contributory defined benefit pension plan. The Plan provides a pension on retirement based on two percent of the average salary for the highest three years times the number of years of pensionable service. The Plan is administered by the Province of Prince Edward Island. The Commission's annual portion of contributions to the Plan of \$378,203 was paid by the Province and not reflected in these financial statements. Any unfunded liability of the Plan is the responsibility of the Province and therefore no liability has been recognized in these financial statements.

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14. Employee Benefits (continued...)

b) Retiring Allowance

The Commission provides a retirement allowance to its permanent employees. The amount paid to eligible employees at retirement is based on the number of years of service and the rate of pay in effect at the retirement date. The benefit costs and liabilities related to the allowance are assumed by the Province and are not included in these financial statements.

c) Sick Leave

Classified employees are credited 1.25 (1.5 - excluded employees) days per month for use as paid absences in the year, due to illness or injury. Under existing employment agreements, employees are allowed to accumulate unused sick day credits each year up to the allowable maximum. Accumulated credits may be used in future years to the extent the employee's illness or injury exceeds the current year's allocation. The use of accumulated sick days for sick leave compensation ceases on termination of employment and there is no obligation to settle these amounts with cash payments. A liability has not been calculated and no accrual has been recorded in these financial statements. The related liability is recorded by the Province. Salary expense is included in these financial statements.

15. Related Party Transactions

These financial statements include the results of normal operating transactions with various provincial departments, Crown corporations, and agencies with which the Commission is related. Operating transactions with related parties, such as insurance and taxes of \$181,954 (2012 - \$166,933) and interest on debentures of \$104,046 (2012 - \$150,101) are recorded at rates as determined by the Province of Prince Edward Island.

Key management received \$561,865 (2012 - \$541,044) during the year for salaries and benefits. Long-term benefits such as pensions are the responsibility of the Province and are not included in these financial statements.

The gain on exchange of non-current assets is a result of a related party transaction with a provincial department and has been recorded at the appraised market value of the property transferred. Consideration received was in the form of paving and site work in lieu of actual cash.

The Commission's employee wages and benefits are paid by the Province and subsequently reimbursed by the Commission.

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16. Restatement of Prior Period Amounts

Componentization of Property, Plant, and Equipment

In accordance with IFRS, components of property, plant, and equipment with significant costs and different useful lives than the asset as a whole are required to be amortized using a different depreciation rate than the whole asset. Based on various assumptions, significant components were determined in owned buildings resulting in different useful lives than previously reported under Canadian GAAP. As a result, the opening net book value for fiscal year 2012 of property, plant, and equipment and payables to the Province increased by \$980,055. This caused the amortization expense for the 2012 fiscal year to increase by \$1,362 which decreased comprehensive income and distributions to the Province by that amount and an overall effect on the payable to the Province and property, plant, and equipment at the end of 2012 fiscal year was an increase of \$978,693.

17. Contingent Liabilities

The Prince Edward Island Liquor Control Commission is subject to legal actions arising in the normal course of business. At the issuance date of these financial statements there were outstanding legal claims against the Commission. Costs, if any, related to these outstanding claims are the responsibility of the Prince Edward Island Self Insurance and Risk Management Fund. The Fund provides general liability, errors and omissions, primary property, crime, and automobile liability insurance. The Fund is administered by the Province of Prince Edward Island and the Province is responsible for any liabilities of the Fund.

